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Jemena Gas Networks

AER meeting 14 Mar 14



Agenda

1. State Grid transaction
2. Mines subsidence
3. Government authority work
4. Incentive mechanisms



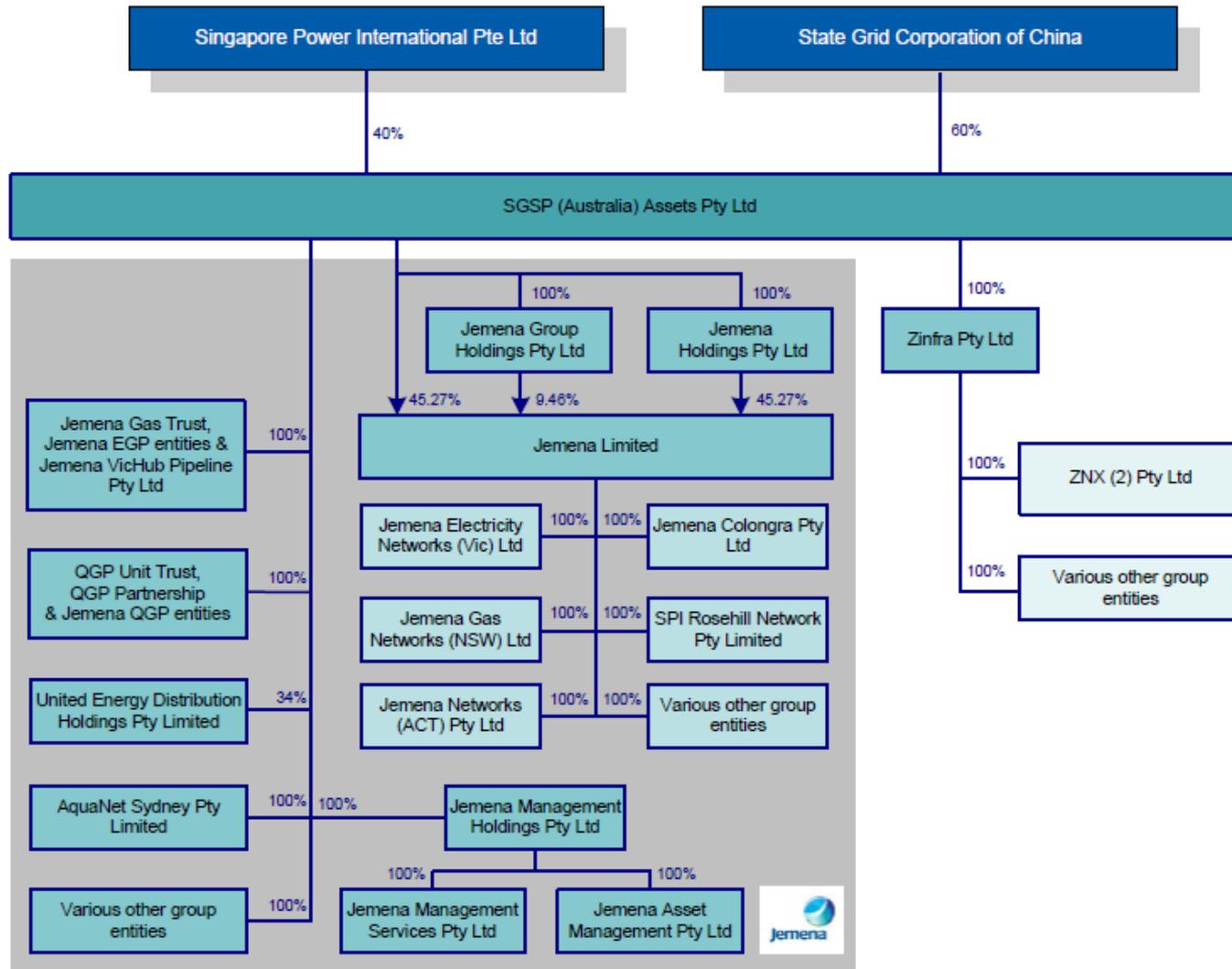
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State Grid transaction



About State Grid

- Businesses in construction and operation of electricity grids and gas transmission in 5 countries (China, Brazil, Portugal, Philippines, Australia)
- Covers 88% of geographical area of China, with 710,000km of transmission lines, serving 1.1 billion customers
- Revenues of \$300B p.a., #7 on Fortune Global 500 companies.





Mines subsidence, GAW

- Noticed the following comments in the draft AA RIN

“Where mines subsidence capital expenditure is not fully cost recovered, the reasons for this must be supplied.”

Where [government authority work] projects are not fully cost recovered, provide evidence of the benefit to JGN and the reasons why customers should incur the cost of these projects.

- Will attempt to address these points today, and request guidance on any further information required to address the AA RIN questions

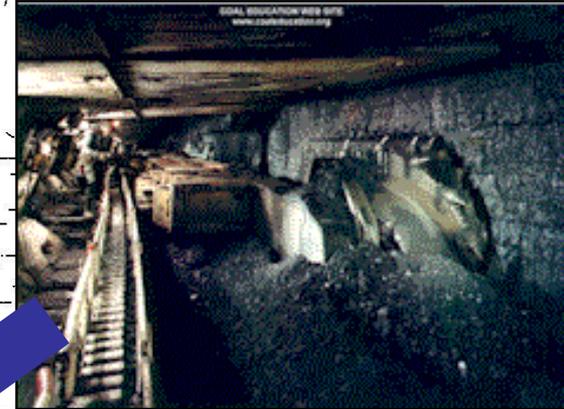
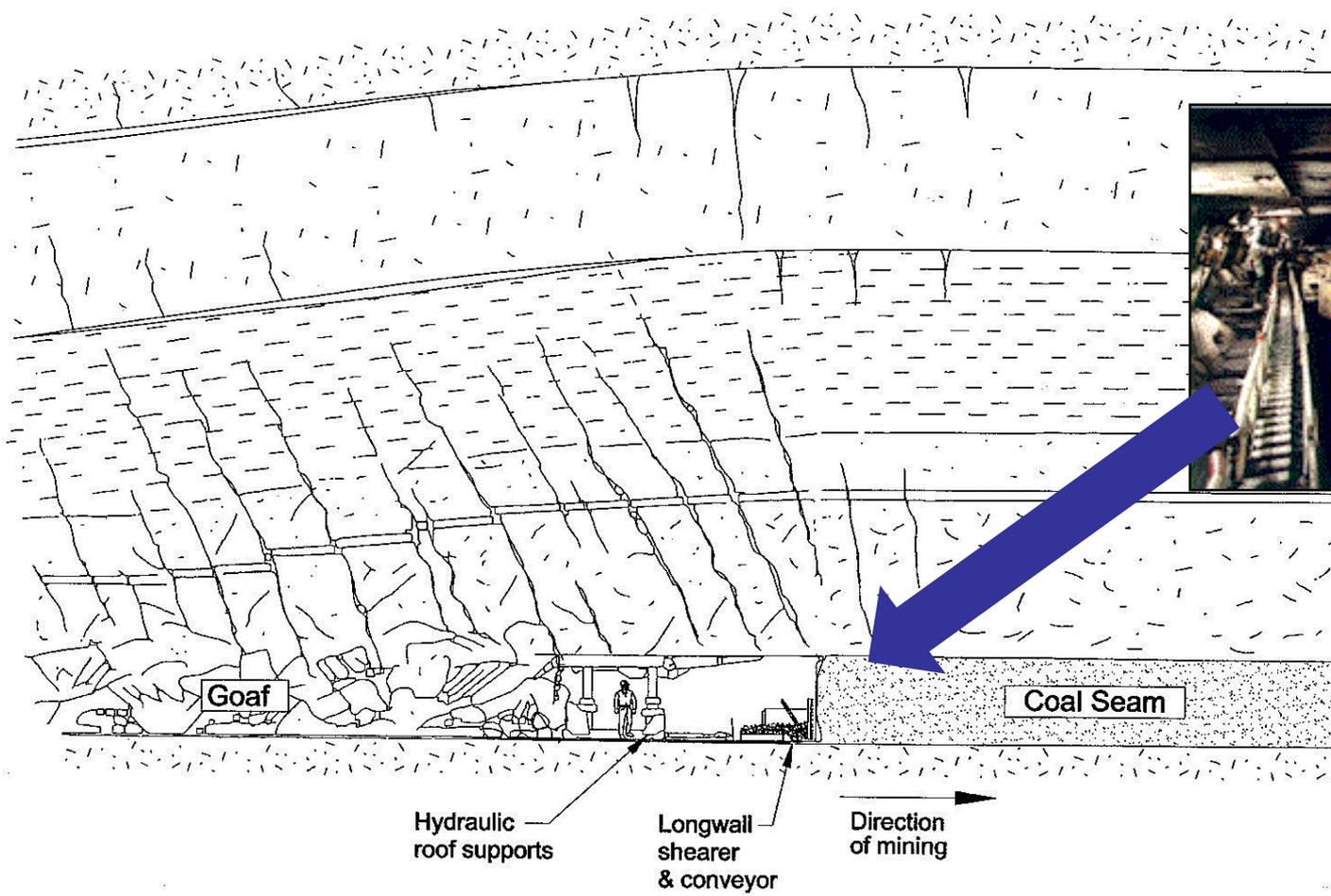


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Mines subsidence



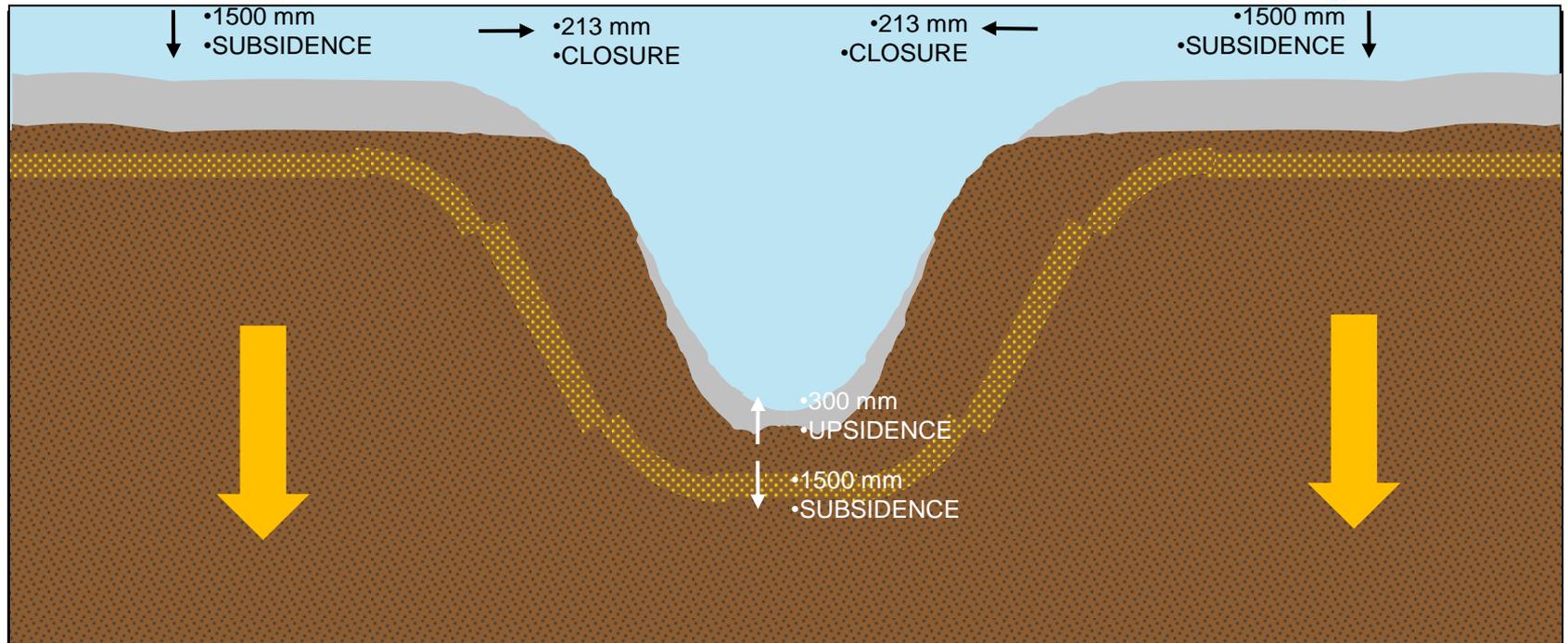
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TYPICAL LONGWALL FACE
(NOT TO EXACT SCALE)



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•MINE SUBSIDENCE

•EXPECTED SOIL MOVEMENTS AND PIPELINE BENDING



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Mallaty Creek : Prior Works





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Cost recovery issues

[c-i-c]



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Government authority work (Phil)



Background

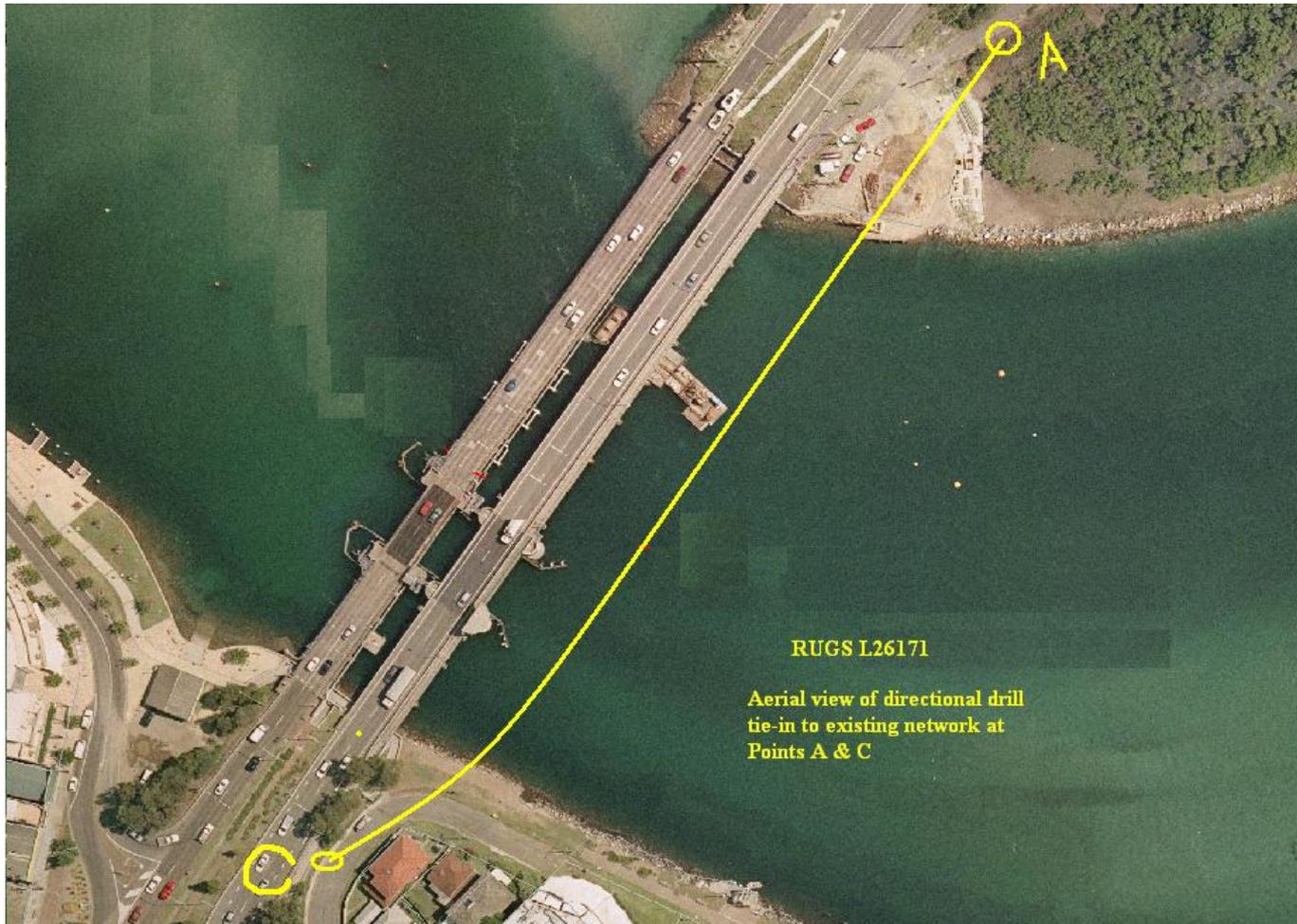
- Government authority and private landowners can request JGN to move its assets
- Legacy agreements will differ in whether JGN is able to gain recovery (often based on the upfront costs incurred to gain access).
- This costs JGN around \$7.5 per annum, of which \$7M is recovered from the requesting party.

[c-i-c]



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Example 1: Swansea bridge





Example 2: Prudent augmentation

- In some cases it is prudent to augment the network (capacity development) at the same time as the relocation.
- The requesting party does not pay for this shared network augmentation.
- A recent example is the Central Coast Highway project where we upgraded a 110mm PE asset to 160mm PE gas main.
- Price the two options, and the difference (i.e. the increment) is included as unrecoverable “government authority’ capital work.



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Incentive mechanisms (Alex)



Efficiency sharing scheme

- An opex efficiency sharing scheme applies to all gas distributors except APT Allgas and JGN.
- JGN will propose an efficiency sharing scheme for operating expenditure
- We have consulted on this approach with the JGN Customer Council who have supported our intention
- Our proposed mechanism will be broadly consistent with that applied to the Victorian distributors



Adjustments

- We will propose adjustments for cost pass throughs:
 - Licence fee event
 - Unaccounted for gas event (volume, cost/GJ)
 - Carbon cost event
 - Others as defined under the AA



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Questions?